

MINUTES

JOINT HOUSE AND SENATE CHANGE IN EMPLOYEE COMPENSATION (CEC) COMMITTEE

DATE: January 16, 2007

TIME: 3:30 p.m.

PLACE: State Capitol Building, JFAC Room

MEMBERS PRESENT: Co-Chairman Andreason, Co-Chairman Schaefer; Senators Coiner, McGee, Fulcher, Hammond and Kelly; Representatives Roberts, Bolz, McGeachin and Pasley-Stuart

MEMBERS ABSENT/ EXCUSED: Representative Bradford

CONVENED: **Co-Chairman Schaefer** called the meeting to order at 3:30 p.m. He announced that the Committee would be receiving information only, and no decisions would be made at this time. He said that the meeting would recess subject to the call of the Chair, and reconvene at such time as the Committee members felt comfortable with the level of information provided regarding state employee compensation.

Co-Chairman Schaefer introduced **Brad Foltman**, Division of Financial Management, to address the Committee regarding the Governor's CEC recommendation.

PRESENTATION: **Mr. Foltman** advised that the Governor's recommendation is very straightforward. He is recommending a 5% merit/performance based allocation, and the agency head would have the discretion to determine, based on performance, what each particular individual would receive. Mr. Foltman stated that the legislation passed last year provided that four components should be addressed in the Governor's recommendation and in the Division of Human Resources report.

One element to consider is a market-oriented payline adjustment, if necessary. The 5% merit increase recommended by the Governor does not specify a payline adjustment. While this has been a component in years past, it is not included this year. If a payline move was to be considered, it would require additional funding to bring up salaries for employees hired at entry level rates and would create a salary "compression" problem.

The second component of consideration is specific occupational salary inequities. Again, the Governor's recommendation of 5% is felt to be sufficient for the agency directors to address any occupational salary inequities within their geographical area and within their particular funding availability.

The third component for consideration is a merit-based increase. The Governor's recommendation is completely merit-based, and there was no provision for cost of living increases or longevity pay in the 5% proposal.

The fourth component to consider is changes in employee benefits. In the Governor's recommendation, increased employer costs for health care benefits will remain neutral and no additional funding for increased program cost has been included. The lack of consistent raises in employee compensation has resulted in a number of "compression" problems within the state employee compensation system. The Governor has chosen to address the compensation issue with a 5% salary increase and remain neutral with regard to the insurance benefits, as these benefits are much better and more competitive than what is provided in private industry. So, if the salary equity issues are going to be addressed, then there will be no increase in funding for the benefit package.

When asked about the details of the survey data used to determine that state employee benefits exceed that provided by private sector employers, **Mr. Foltman** stated that surveys "are a mix" with regard to the types and sizes of businesses that are surveyed. **Mr. Foltman** said that the State of Idaho must be competitive with at least some components of their compensation package, otherwise the state would be unable to recruit any employees at all.

When asked about the specific dollar amount that the employees would be required to absorb for health care cost increases, **Mr. Foltman** said that there are many factors that would have to be considered, and the specific amount would depend upon the employee and number of dependents that are covered. He did not have any specific information with regard to the actual amount of the cost increase that would be passed on to the employees. **Mr. Foltman** said that it is the Governor's desire, as addressed in his State of the State message, that all state employees "assume more personal responsibility in all areas of state government services." Therefore, the employees would be expected to absorb "a several percent increase" in premium costs that would include increase premium costs for both the employer and employee. There may also be increased deductibles and co-payments.

Mr. Foltman then responded to questions from the Committee regarding salary increases for targeted positions. He said that the general classifications that were identified for additional consideration are critical classifications in state government (i.e., nurses, engineers, corrections, etc.) that have high turnover. Using a portion of the 5% merit increase for this purpose is something that should be determined by the particular agency's management team.

When discussing the directive in Idaho Code for the state to be a market rate employer, **Mr. Foltman** said that the Division of Human Resources report advised that a 2% annual increase in salaries would "catch up" state employee compensation levels to market rate in ten years. Therefore, the 5% merit-based salary increase is sufficient to accomplish this goal. **Representative Pasley-Stuart** commented that the actual recommendation was that a 5.8% annual increase would be required to reach market levels over ten years.

Mr. Foltman said that in comparing state jobs to those in the private sector, it is difficult to find a match for several positions, such as corrections officers. Also, the private sector is able to provide salaries and incentives that the state is not allowed, by Code, to provide in state government, and this also contributes to the state's difficulty in recruiting candidates for those type of positions.

Mr. Foltman confirmed that reserves are available in the health insurance fund to offset some of the increase in costs for some components of the health care plan. Discussion focused again on total benefit compensation and how that is calculated with regard to state employee compensation.

Mr. Foltman said that the state is focusing on maintaining, rather than reducing, the programs that are currently in place, while addressing the "subsidizing" of those programs by the state.

Mr. Foltman addressed questions from the Committee regarding the annual cost of living increase. He said that the projected cost of living increase is 2.8% to 3%. **Co-Chairman Andreason** asked what the net salary increase would be for the employees after reducing the 5% increase recommended by the Governor by the 2.5% increase in health insurance premiums and a 2.8% cost of living increase. **Mr. Foltman** said that there may be employees that "would experience loss" as their health insurance plan increase would offset their salary increase. But, because it is a merit-based plan, some employees would receive less than 5% and some employees may receive more than 5%. This would result in some employees not remaining at their currently salary level after the health insurance increase.

Co-Chairman Andreason discussed the recommendation of the 2005 Joint Interim CEC Committee and the subsequent legislation passed in 2006 that specified a 5.8% annual increase in salary to reach market rate levels in ten years. This did not include any increases in employee costs for health insurance. Therefore, it appears that there is no effort being put forth by the Governor to follow this codified directive.

Mr. Foltman said that for the past several years the state has not had adequate funding resources to provide sufficient salary increases to the employees. **Co-Chairman Andreason** agreed that for the past several years funding was not sufficient to provide adequate employee salary increases, however, this year is different and the funding is available. He asked **Mr. Foltman** that if the Governor's decision not to fund state employee salaries as directed in the legislation at 5.8% is not due to lack of funds this year, then is it a matter of priority. **Mr. Foltman** said, "yes," and that it is the Governor's intention that a 5% increase would address that issue along with all other critical priorities of the state.

Mr. Foltman then answered more questions regarding the employee health plan, and confirmed that the new contract negotiations for health insurance could result in a reduced benefit program and increased employee premiums in order to maintain the "employer neutral" position with regard to employee health care costs. Although **Mr. Foltman** stated that the state employee benefit package is 35% of total compensation, he stated he did not know what the percentage would be for private sector

employers. When asked at what pay grade level an employee would need to be in order to actually see an increase in salary, **Mr. Foltman** said he did not know. However, he acknowledged that it would be more difficult for employees in the lower pay grades to actually realize a salary benefit from the 5% increase.

Representative Roberts discussed the need for the Committee to receive accurate information from the agencies with regard to the value of the employee benefit package. The CEC Committee has struggled for years to determine where state compensation stands in relation to market compensation. The directive of S1363 specifies that the state will provide an overall compensation package that, when taken as a whole, is competitive with market averages. That information has never been provided to the Committee and is necessary in order to achieve this goal.

Mr. Foltman said that he will work with the Division of Human Resources to include this information in their report.

Mr. Foltman concluded his presentation by commenting that it is an important thing for the workforce to be recognized by a merit-based salary increase. He stated that the Governor has tried to address that in his 5% salary increase recommendation, so employees would not feel that the entire state budget "is being balanced on the back of the employees." He said that the Governor is striving to provide a solid 5% merit-based increase and he is also trying to work with the Legislature to provide a competitive total compensation package.

Co-Chairman Schaefer stated his concern that the state is not accepting it's share of responsibility for the employee benefit package. He said it is the responsibility of the employees and the employer to share the financial burden for the employee benefit package; and, it appears that the state is being remiss in its CEC recommendation by not accepting full responsibility for it's share of cost for the health insurance program.

ADJOURNMENT: **Co-Chairman Schaefer** recessed the meeting at 4:37 p.m. to reconvene at the call of the Chair.

Senator John Andreason
Co-Chairman

Representative Robert Schaefer
Co-Chairman

Olga Coply
Secretary